

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

TRANSFERRING BOUND PRINTED MATTER
PARCELS TO THE COMPETITIVE PRODUCT
LIST

Docket No. MC2021-78

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1 – 6a
OF CHAIRMAN'S INFORMATION REQUEST NO. 4
(April 23, 2021)

The United States Postal Service hereby provides its responses to Questions 1 – 6a of Chairman's Information Request No. 4, issued on April 16, 2021. Each question is stated verbatim and is followed by its response. The Postal Service is in the process of determining whether information responsive to Question 6b exists. The Postal Service will file that answer with an appropriate motion.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

1. Please indicate whether the Postal Service plans to seek an above-average price increase for BPM Parcels in the next market dominant rate increase if the proposed transfer has not yet been approved.

Response:

The Postal Service is currently unable to provide information about the future pricing of BPM Parcels as the Governors have not yet considered, much less decided, the matter. In whatever way the Postal Service chooses to proceed on pricing BPM Parcels in the future, it will act in full compliance with the recently adopted rules on pricing in 39 C.F.R. part 3030.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

2. Please confirm that, if the transfer is approved, the Postal Service intends to maintain the existing 2 - 9 day service standard for BPM Parcels with the new Parcel Select Bound Printed Matter competitive product.

Response:

The Postal Service presently has no intention to change the service standard of BPM Parcels upon transfer.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

3. The Postal Service lists several “hybrid” products as competitors to BPM Parcels, stating that the providers of these products “resell BPM Parcel delivery to their customers and...[enter] packages into the mailstream as BPM Parcels.” Request at 8-9.
- a. Please confirm that the Postal Service is asserting that the BPM Parcels product is in competition with its own resellers. If confirmed, please provide a detailed explanation of how the existence of resellers of a product establishes a lack of market power for that product. As part of that explanation, please include specific examples from other industries where the existence of resellers was found to indicate a lack of market power. If not confirmed, please explain.
 - b. Please confirm that the Postal Service will continue to be willing to partner with its resellers to provide such hybrid products if the transfer is approved. If not confirmed, please explain the reliance on products that will not exist post-transfer to justify the assertion of a lack of market power.
 - c. If the answer to question 3.b. is confirmed, please also confirm that the increase in the price of BPM Parcels if the transfer is approved is anticipated to be passed along to the resellers’ customers in the form of increased prices for the hybrid products. If confirmed, please explain how the existence of a product whose price is tied to the price of BPM Parcels can constrain the ability of the Postal Service to raise prices on BPM Parcels. If not confirmed, please explain.

Response:

As to Question 3a, in its request to transfer BPM Parcels to the competitive products list, the Postal Service used the term “resellers” as a label of convenience to describe the providers of hybrid products such as SurePost and SmartMail that make

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN’S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

use of BPM Parcels for delivery. In that sense, yes, BPM Parcels is in competition with “resellers,” whatever other senses that term may have.¹

Their participation in the market does not, as the question suggests, establish a lack of market power for the Postal Service and misconstrues the Postal Service’s discussion in the transfer request. The Postal Service did not, and does not, maintain, that it lacks any market power in the BPM Parcels market. It is a participant in the market along with the other competitors identified.

Some of those competitors sell hybrid products – they are, in effect, “resellers” of BPM Parcels – but they are viewed by their customers as separate entities and separate market participants. A commercial mailer using DHL’s SmartMail is doing so because it perceives that DHL provides business benefits beyond those that the Postal Service provides, not because DHL avails itself of BPM Parcels for last mile. If that were the case, the mailer would cut out the middleman and ship with the Postal Service directly.

Other competitors operate their own end-to-end delivery networks and have last-mile capability. In and of themselves, they are capable of providing the same services the Postal Service provides.

In short, the existence of these competitors establishes that the Postal Service lacks monopoly power in the BPM Parcels market, that BPM Parcels no longer meets

¹ As used in this response, the Postal Service does not intend the term “reseller” to encompass the more common usage of the term – i.e., an entity that provides, for example, an online shipping platform that resells USPS or non-USPS shipping solutions, or both, to e-commerce retailers.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

the definition of a Market Dominant product in 39 U.S.C. § 3642(b)(1), and that the conditions for transferring BPM Parcels to the competitive product list are satisfied.

Given all of this, the Postal Service has no examples of “industries where the existence of resellers was found to indicate a lack of market power.” The Postal Service would note, however, that the logic of the question would also call into question Parcel Select’s classification as a competitive product. It is well known that Parcel Select’s destination-entry last-mile rates are heavily used by resellers; it does not follow that Parcel Select is not in competition with those resellers.

As to Question 3b, yes, the Postal Service will continue to be willing to partner with its resellers to provide such hybrid products if the transfer is approved, subject, of course, to any strategic decisions of future Governors or Postmasters General.

As to Question 3c, the Postal Service cannot confirm that resellers will raise prices on hybrid products or pass along those increases if the transfer of BPM Parcels to the competitive products list is approved. Those are decisions made by independent participants in the BPM Parcels market and would depend on, among other things, their own profit margins, which are not available to the Postal Service.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

4. The Postal Service identifies UPS Ground and FedEx Ground as competitors to BPM Parcels. *Id.* at 6-7.
- a. Please discuss whether the content restriction on BPM Parcels that is absent from UPS Ground and FedEx Ground indicates that BPM Parcels operates in a separate market segment from UPS Ground and FedEx Ground.
 - b. The Postal Service states that UPS Ground and FedEx Ground offer additional features not available with BPM Parcels, such as a 5-day delivery guarantee and a higher weight limit. *Id.* at 7. Please provide a detailed explanation regarding why the Postal Service does not consider these additional features to indicate that BPM Parcels operates in a separate market segment from UPS Ground and FedEx Ground.
 - c. Please describe in detail any difference in preparation requirements between BPM Parcels, UPS Ground, and FedEx Ground, and discuss whether any such differences in preparation requirements indicate that BPM Parcels operates in a separate market segment from UPS Ground and FedEx Ground.
 - d. Please discuss whether differences in preparation requirements, if any, discussed in the response to question 4.c. affect the Postal Service's assertions that FedEx Ground and UPS Ground are interchangeable with BPM Parcels "in fact" and that any package eligible to be shipped using BPM Parcels could alternatively be sent as UPS Ground or FedEx Ground. *See id.*
 - e. The Postal Service states that the higher prices charged for UPS Ground and FedEx Ground pay, in part, for a much higher weight limit. *Id.* Please confirm that the higher weight limits on UPS Ground and FedEx Ground do not affect the comparison of prices with BPM Parcels on a same-weight basis. If not confirmed, please explain.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

Response:

As to Questions 4a and 4b, the differences in characteristics between BPM Parcels on the one hand and UPS and FedEx Ground on the other do not indicate that BPM Parcels operate in a separate market segment. As the Postal Service stated in its transfer request, those products have more features in common than not, and, critically, can be and are substituted for one another. As such, the products compete in the same market segment. Postal Service Transfer Request at 5-7.

As to Questions 4c and 4d, content and basic eligibility standards for BPM Parcels is found in the Domestic Mail Manual (DMM) §§ 263.2 and 263.3. Basic mailability and addressing standards are in DMM §§ 601 and 602. The Postal Service is unaware of the precise preparation requirements for UPS and FedEx Ground and believes these may be negotiable with some individual clients. However, the Postal Service believes, and customers likely understand, that a package that meets the eligibility, content, mailability, and addressing standards of BPM Parcels can be sent UPS or FedEx Ground.

As to Question 4e, confirmed, though direct comparison can be difficult in any event because of the pricing structure for BPM Parcels, which is not primarily based upon weight. Rather, BPM Parcels prices have per-piece and per-pound components and differ between presorted and non-presorted pieces. Notice 123, Bound Printed Matter – Commercial Parcels, Carrier Route & Presorted, Non-presorted (Jan. 24, 2021).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

5. The Postal Service states that “62.7 percent of BPM Parcels volume in FY 2020 was entered by entities with robust logistics networks that provide for all legs of delivery from origin through last mile.” *Id.* at 10. The Postal Service asserts that close to two-thirds of BPM Parcel volume is at risk for immediate diversion should the Postal Service significantly raise prices or significantly degrade service. *Id.* Please provide any data or analyses indicating the price point(s) at which the Postal Service expects that such entities would divert current BPM Parcels to their own networks.

Response:

The Postal Service has no such data or analyses. However, public statements by competitors indicate that decisions to distribute packages among various parts of to their networks for delivery are based upon factors other than price. For example, in FedEx's Q3 2021 earnings call, the president and COO stated:

Now, turning to FedEx Ground. The outstanding margin improvement for Ground in Q3 highlights the success of our ongoing strategic initiatives and investments to improve efficiency and reduce costs associated with the last mile even amid record residential volume levels. These investments continue to pay off. Let me share three examples. Number one, we saw a meaningful improvement in last mile efficiency as service providers improved their stops per hour 21% year-over-year in Q3. Number two, the average cost per stop decreased by 12% year-over-year. And number three, we maximized our assets, expanding to seven-day operations and integrating Ground economy, or formerly FedEx SmartPost, reduced our fixed cost per package by 4% year-over-year. We remain very optimistic for continued profitable growth at Ground.

Collaboration between operating companies continue at an unprecedented rate in Q3. This month marks the one-year anniversary of the launch of last mile optimization (LMO), which allows us to flex our networks to increase delivery density for residential, rural and deferred packages. LMO will expand to six more markets effective May the 1st, increasing to 63 markets in total and covering two-thirds of the US GDP. Additionally, FedEx Freight has delivered more than 1.75 million shipments for Ground so far this fiscal year.

Similarly, the Chairman and CEO recently stated:

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

Well, we've had a very long relationship with the Postal Service, and to some degree you might call it a "coopetition" [phonetic]. We transport in our express system almost all of the priority mail, airport-to-airport. Postal folks pick it up, give it to us, we transport it, and it's delivered on the other end. That's how you get two-day priority mail.

On the other side of the coin, they've had this service where they incent you to give them packages at the Post Office. That service is called Parcel Select. And we and UPS and Amazon, in particular, have used that in years past. *We announced, about a year ago, now, that we would bring that in house for the simple reason we can do it cheaper than what the Postal Service charges us.* Washington Post, May 14, 2020. (Emphasis added.)

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4, Qs 1 – 6a**

6. The Postal Service states that it “has shown that the mailers of BPM Parcels are overwhelmingly highly sophisticated commercial entities that have alternatives for the delivery of their parcels.” *Id.* at 14. The Postal Service has noted, however, that many of these sophisticated commercial entities are resellers of BPM Parcels. See *id.* at 8-9.
- a. Please discuss whether the views of these resellers’ customers should be considered when evaluating the views of the customers of BPM Parcels.

Response:

As to Question 6A, yes, the views of resellers’ customers are relevant and should be considered.